

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name City of Kalamazoo Economic Development Corp.	County Kalamazoo
Audit Date December 31, 2004	Opinion Date May 5, 2005	Date Accountant Report Submitted to State: August 2, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

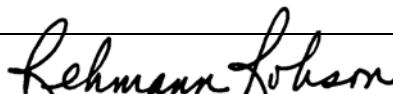
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

CITY OF KALAMAZOO, MICHIGAN

**ECONOMIC DEVELOPMENT
CORPORATION**

Basic Financial Statements

**For The Year Ended
December 31, 2004**



REHMANN ROBSON

Certified Public Accountants

**CITY OF KALAMAZOO, MICHIGAN
ECONOMIC DEVELOPMENT CORPORATION**

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

May 5, 2005

Board of Directors
Economic Development Corporation of the
City of Kalamazoo
Kalamazoo, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the *Economic Development Corporation of the City of Kalamazoo, Michigan (a component unit of the City of Kalamazoo)*, as of and for the year ended December 31, 2004, which collectively comprise the Corporation's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Economic Development Corporation of the City of Kalamazoo, Michigan as of December 31, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Corporation has not presented Management's Discussion and Analysis for the Economic Development Corporation as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of the basic financial statements.

BASIC FINANCIAL STATEMENTS

CITY OF KALAMAZOO, MICHIGAN
Economic Development Corporation
Statement of Net Assets and
Governmental Fund Balance Sheet
December 31,2004

	<u>General Fund</u>	<u>Full Accrual Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and cash equivalents	\$ 200,596	\$ -	\$ 200,596
Notes receivable	1,181,519	-	1,181,519
Due from the City of Kalamazoo	37,589	-	37,589
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u><u>\$ 1,419,704</u></u>	<u> </u>	<u>1,419,704</u>
Liabilities			
Accrued liabilities	\$ 3,712	-	3,712
Due to the City of Kalamazoo	9,901	-	9,901
Advances from the City of Kalamazoo	1,106,519	-	1,106,519
Deferred revenue	75,000	(75,000)	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	1,195,132	(75,000)	1,120,132
Fund balance			
Unreserved	224,572	(224,572)	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u><u>\$ 1,419,704</u></u>		
Net assets			
Unrestricted		<u><u>\$ 299,572</u></u>	<u><u>\$ 299,572</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Economic Development Corporation
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
December 31, 2004

Fund balance - governmental fund	\$ 224,572
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Amounts reported in the statement of net assets are different because:

Because the focus of the governmental fund is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

Add: deferred notes receivable	<u>75,000</u>
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Net assets	<u><u>\$ 299,572</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Economic Development Corporation
Statement of Activities and
Governmental Fund Revenues, Expenditures
and Changes in Fund Balances
For the Year Ended December 31,2004

	<u>General Fund</u>	<u>Full Accrual Adjustments</u>	<u>Statement of Activities</u>
Revenue			
Interest and rent	\$ 13,810	\$ -	\$ 13,810
Other revenue	238,151	-	238,151
	<u>251,961</u>	<u>-</u>	<u>251,961</u>
Total revenue	<u>251,961</u>	<u>-</u>	<u>251,961</u>
Expenditures / expenses			
Wages and benefits	76,951	-	76,951
Economic initiatives	4,089	-	4,089
Outside contractual services	4,041	-	4,041
Loan expenditures	25,000	(25,000)	-
	<u>110,081</u>	<u>(25,000)</u>	<u>85,081</u>
Total expenditures / expenses	<u>110,081</u>	<u>(25,000)</u>	<u>85,081</u>
Revenue over expenditures	141,880	(141,880)	-
Change in net assets	-	166,880	166,880
Fund balance / net assets			
Beginning of year	82,692	50,000	132,692
	<u>82,692</u>	<u>50,000</u>	<u>132,692</u>
End of year	<u>\$ 224,572</u>	<u>\$ 75,000</u>	<u>\$ 299,572</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Economic Development Corporation
Reconciliation of Governmental Fund Revenue, Expenditures
and Changes in Fund Balances to Changes in Net Assets
For the Year Ended December 31, 2004

Net change in fund balance - governmental fund	\$ 141,880
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Amounts reported in the statement of activities are different because

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, but rather are deferred to the following fiscal year.

Add: net change in notes receivable	<u>25,000</u>
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Change in net assets	<u><u>\$ 166,880</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Notes to Basic Financial Statements

1. NATURE OF ORGANIZATION

Organization – The Economic Development Corporation (the “Corporation”) was incorporated by the City of Kalamazoo, Michigan (the “City”) on March 7, 1977. Its purpose is to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving or expanding within the City so as to provide needed services and facilities of such commercial enterprises to the residents of the City. The governing body of the Corporation is a Board of Directors consisting of at least nine members, with no more than three members being employed by the City. In certain situations, members of the Board of Directors may be removed by a majority of the Kalamazoo City Commission.

Since the passage of the 1986 Tax Reform Act, which curtailed the favorable treatment for EDC revenue bonds, the activities of the Corporation have significantly decreased. Accordingly, the Corporation has not prepared or approved a budget for 2004 as management and the Board believes it is not necessary for the level of activity in the Corporation.

Bond and Note Issues – The Corporation issues tax-exempt revenue bonds and notes under authority of the Michigan Economic Development Corporation Act. Proceeds of the debt issues are used to purchase or construct facilities that are leased to industrial and commercial enterprises under contracts which provide for sufficient revenue to satisfy principal and interest obligations of the debt issues. The property is transferred to the lessee at the time the indebtedness is paid in full.

The structure of the aforementioned “lease” transactions is such that the leased property and the related debt are not considered to be assets or general obligations of the Corporation and, accordingly, are not recognized in the financial statements of the Corporation.

As of December 31, 2004, there were six series of Economic Development Corporation bonds outstanding, with an aggregate principal amount payable of \$42,840,000.

CITY OF KALAMAZOO, MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Notes to Basic Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on this criteria, no component units are included in these financial statements.

The Corporation is included in the Comprehensive Annual Financial Report of the City of Kalamazoo, Michigan, as a discretely presented component unit.

Government-wide and Fund Financial Statements – As permitted by GASB Statement No. 34, the Corporation uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. Major individual governmental funds are reported as separate columns in the aforementioned financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

CITY OF KALAMAZOO, MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Notes to Basic Financial Statements

3. DEPOSITS

The Corporation's cash and cash equivalents at December 31, 2004 consisted of bank deposits and the carrying values and bank balances were \$200,596. These amounts are held with other deposits of the City and because of this, the cash balance may, at times, exceed FDIC insured limits by a substantial amount and, accordingly, should be considered largely uninsured and uncollateralized.

4. RISK MANAGEMENT

The Economic Development Corporation is exposed to various risks of loss related to torts, errors and omissions. The Corporation participates in the City of Kalamazoo's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss funds. The City estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the Economic Development Corporation that would require a liability to be recorded in the financial statements.

5. NOTES RECEIVABLE

In 2004, the Corporation had loans receivable outstanding totaling \$1,181,519 to local businesses for purposes of redeveloping certain properties in downtown Kalamazoo. Of this amount, approximately \$40,000 is expected to be collected within one year. Under the terms of the agreements, the loans are secured by mortgages on the properties and personal guarantees from applicants. Loan repayment terms have been structured on a case-by-case basis, with certain loans amortized with principal and interest payments beginning immediately, and others beginning with interest-only payments. Certain loans have a balloon payment structure.

The funding for these loans was derived from an advance from the City of Kalamazoo under its Economic Initiatives Fund program. Principal and interest payments from loan recipients are transferred to the Economic Initiatives Fund upon receipt; however, no interest is charged directly by the Economic Initiatives Fund to the Corporation for the advance.

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